

The Future of the U.S. Foreign Assistance Program

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Let me begin by thanking John Sewell and ODC for sponsoring this forum. ODC has contributed so much to development thinking over the years. I could not think of a more appropriate venue for my last message to the development community as AID Administrator.

One year ago, I decided it was time to bring my tenure to a close. About that time Sandy Berger asked me if I would agree to serve as Ambassador to Brazil. That decision was obviously a mistake. I lost control over my own timetable. I would probably still be waiting for a hearing if I had not withdrawn my nomination.

Timetables are important when you are trying to bring closure to both a government career and a term of office. When I leave government on July 9, I will complete six years, two months and four days as AID Administrator. That is not a record, by the way, it just feels that way!

While it is natural to want to achieve a neat closure to this experience, I have concluded that there will always be unfinished business. That is what I want to talk to you about today.

Progress at USAID

First, I want to be retrospective. We did get some things done in the past six years. USAID has been through the cauldron and it is a stronger organization. Our results orientation is now a part of our culture. AID development officers are now asking themselves the right questions: Can we achieve our goals? What is needed to make this work? Who are our partners and what stake do they have in our strategic objective?

Our re-encountered USAID missions have empowered our Foreign Service National staff and local NGOs. We care more about the participation of civil society in our programs. We listen better. And we no longer approach development solely as a top-down process.

USAID is today more responsive in crisis and post-crisis situations. Our Office of Transition Initiatives is a model for the international community and has helped us fill that gap between the breakdown of a society and its long-term development.

The Bureau for Humanitarian Response we created contains all the elements for rapid and effective crisis response: disaster relief, emergency food, transition support, and PVO support and coordination. This Bureau is now better linked to our development bureaus than ever before.

We initially embraced the concept of the continuum--the relief to recovery to development continuum--in the context of the Greater Horn of Africa Initiative in 1994. Now the international community accepts this concept and for the most part acts to meet the overlapping needs of this conceptual framework.

As we speak, yet another study is underway to consider separating the Bureau for Humanitarian Response from USAID and either placing it inside the State Department or making it a stand-alone agency. This would be a very large mistake. We have worked hard to promote the linkages between relief, recovery, and development that make the continuum a reality. In addition, separating the popular humanitarian programs from USAID would make even more vulnerable our long-term development portfolio on Capitol Hill.

We are seeing our mission more through the prism of conflict prevention, particularly in Africa. Our country review process now actively examines the fault lines of a society and our strategies attempt to reduce the threat of conflict by employing the tools of development.

One of those tools is democracy, and we do this job better as well. Our Global Bureau's Democracy and Governance Center is an international leader in this work, and many of its innovative approaches have been adopted by our field missions.

International Goals

I am most proud of what we were able to get done internationally, within the donor community and with our developing country partners, to achieve consensus goals. The 1996 statement of the Development Assistance Committee of the OECD--*Shaping the 21st Century: The Contribution of Development Co-operation*--continues to be the accepted strategic framework for the donors, and it has now been accepted by the developing world.

This document, which sets specific development goals for all donors for the first time, was endorsed by the G-8 leaders last year at Birmingham, and it is central to the important Comprehensive Development Framework being promoted forcefully by Jim Wolfensohn at the World Bank.

It was the DAC statement and a great deal of on-the-ground collaboration that led me to conclude in an earlier ODC seminar that we have entered an "era of convergence." We now share common goals, and we are working together to achieve and measure results. That is why investments in development have a better chance of succeeding than they did in earlier days when our programs were more reactionary and less integrated.

Reorganization Battles

I feel very proud that these things were done, but I regret deeply that we wasted so much time here in Washington fighting for our very existence. I regret that we not only had to battle the traditional opponents of foreign aid in Congress--a group that was reinforced by the non-passport-carrying members of the class of 1994--but also that the battle had to be fought with Administration colleagues who should have known better.

There is an axiom in Washington that what you believe is strongly influenced by where you sit. I am sure that I have suffered from this constraint myself, though over a thirty-year career you tend to sit in so many different places that your perspective broadens along with certain parts of your anatomy.

The budget pressures within the international affairs accounts have made people more aggressively parochial than ever. If you don't have the money to do your job, then you look around for someone else's money. The easiest target in town is the development assistance account.

I would argue that this account represents the future, but if you sit at the State Department you have to believe the future is now. State's crisis orientation is natural, but it does crowd out the more prospective vision. That is why an AID sitting in the State Department would in time find itself crowded out. I am grateful to Madeleine Albright for appreciating this reality.

The focus in Washington during much of my tenure was on the reorganization plan that moved USAID into State. What would really have advanced the cause of development would have been a plan to give USAID responsibility for the oversight of the World Bank.

No one would dispute that the Treasury Department has gifted international economists and financial experts on its career staff. In this Administration, it has been led by superb financial managers and macroeconomists, Bob Rubin and Larry Summers. Still, its principle orientation is not development, it is finance.

Responsibility for the International Monetary Fund and the World Bank should be divided, with Treasury responsible for the IMF and USAID handling the World Bank. This is the division of labor in many OECD countries, and it would be most appropriate here. The World Bank is, after all, a development bank. USAID already leads U.S. delegations to World Bank consultative group meetings; it alone possesses the expertise needed to partner with the Bank.

Budget Pressures

Yesterday we learned that the budget surplus has grown once again. It will be \$1 trillion over the next 15 years. That is more than the combined GNPs of South Asia and Sub-Saharan Africa. Yet, we continue to run our government under budget caps set when we had a deficit. These budget caps are a disaster when it comes to protecting America's international interests. Every day we are missing opportunities to advance our international interests: to understand the internal tensions that could lead a state to fail or go to war with its neighbor; to create new market opportunities; to control the flow of weapons of mass destruction; to promote democracy and human rights; or to achieve sustainable development.

Without adequate staff and resources, we cannot know what we are missing. We are blind to both the opportunities and the threats. Our government is silenced in many forums when our voice can lead the world to better choices.

The politics of the budget process--do we use the surplus to save social security or cut taxes?--is producing back-door isolationism and both branches of government are responsible for the current impasse. The international affairs account needs relief. We cannot fulfill our international responsibilities with a 30 percent reduction from last year's inadequate appropriation. The President and the Congress need to work together to fix this.

The Growing Gap Between Rich and Poor

In one of the great left-handed compliments of all time, Winston Churchill said of Americans: "I have great confidence in the judgement and the common sense of the American people and their leaders. They invariably do the right thing, after they have examined every other alternative."

I am convinced that one day we will do the right thing--we will adequately fund our international assistance programs but only after painful reality has set in. The reality that will most impose itself on our national consciousness is the growing global disparity between rich and poor.

The industrial world is getting shamelessly rich while most of the world's people are losing ground. The current ratio of rich to poor is now about 65 to 1. That is, for every dollar earned in the developing world, 65 dollars are earned in the industrial world. At the turn of this century the ratio was 9 to 1. There are now 1.3 billion people living in extreme poverty.

What will it take to wake up our political leaders? More failed states? More wars? More south- to-north migration? More transmissions of infectious disease? More terrorism?

I have had the good fortune of serving in the Administration of a President and a First Lady who have advocated using foreign assistance to combat these threats. Yet, the budget for foreign aid has been cut along with the rest of the federal budget. This has caused the Administration to hope that other factors would compensate.

For example, we rationalized our low contribution to the developing world by assuming that nations wanted "trade, not aid." As time went on, and despite many well-publicized trade missions, we saw virtually no increase of trade with the poorest nations. These nations could not engage in trade because they could not afford to buy anything.

For a while we pointed to the huge private capital flows to the developing world. A closer examination showed this investment going into the richer emerging markets rather than the poorer countries. A closer examination showed that this investment was short term, not equity capital. The financial crisis revealed weak banking systems, crony capitalism, and the rapid flight of foreign capital.

In 1996, we achieved a peak high in loans from the developed to the developing world. We thought that would compensate for the drop-off in development assistance. The net plus in 1996 was \$86 billion in loans including repayment outflows. In 1998, the net loan portfolio fell to a negative \$65 billion as repayments easily overtook the dwindling number of new loans as the financial crisis took hold.

The recent announcement on debt relief from the G-8 meeting in Cologne is greatly welcomed. But given this negative flow of capital, the developing world has a right to ask why it took so long. Many nations are spending four times more on repayments of debt than they are on education and health care.

Meanwhile, official development assistance (ODA) fell from \$60 billion in 1994 to \$47 billion in 1997. It rose again, slightly, to \$50 billion in 1998. Yet, of the \$50 billion, 4.5 percent was for disaster relief, an increase of 250 percent in a ten-year period.

We are sending very mixed messages to our developing world partners. We say on the one hand we want them to embrace democratic, market economies and to enjoy the benefits of globalization and, on the other hand, we withhold the assistance they need to help themselves prepare for this new world of opportunity.

The sad and even dangerous reality is that globalization and the democratic-market economy movement have not closed the gap between rich and poor. The expansion of civil society, the increase in elected governments, the effort to provide more autonomy at the local level and the growth of entrepreneurship have all contributed to development progress, but they have not yet closed the poverty gap. Why? Because much of the change we are seeing is occurring within the previous ruling classes of these societies. Some in the donor community seem content to nurture reform without equity.

That is a dangerous approach because when only a small percentage of a population enjoys the benefits of democracy, disillusionment sets in. When the institutions of democracy are weak, unmet needs can unravel a society.

Economic growth can reduce poverty, but not without investments in health care, education, job creation, community development, and food security. Economic growth can reduce poverty, but not if corruption is reducing tax revenues by as much as 50%, as a recent World Bank study revealed. Economic growth can reduce poverty, but not if governments worry more about military expenditures than social services.

If economic growth is limited to an already educated elite, then it has limited development benefit and it is a poor indicator of sustainability. Reform without equity investments may satisfy the IMF, but it cannot be a recipe for long-term stability.

Compromising the Future

The equity agenda seeks solutions to these problems. It advocates a major attack on corruption. It promotes the microenterprise-microcredit revolution. It urges deregulation to encourage the growth of small businesses. It invests in developing human capacity. And it suggests that governments open their economies to their own people while creating investment environment characterized by transparency, a non-arbitrary and efficient application of tax laws, and financial systems that are efficient and incorruptible.

Two relatively new concepts should be added to this list of solutions:

First, the idea promoted by Hernando de Soto that the poor's property should be titled so that its worth can be used as collateral.

Second, the notion promoted by Michael Fairbanks and Stace Lindsay, in their book, *Plowing the Sea*, that the appropriate goal for governments should be to seek "competitive" rather than "comparative advantage." The traditional comparative advantage emphasizes low-wage manufacturing jobs, agricultural exports, and extractive industries, while a "competitive advantage" would require the creation of an educated work-force and economic units that can compete with the industrial countries. Costa Rica is a good example of a nation that placed its emphasis on education and now has developed a more equitable and more competitive economy with flourishing software and communications industries.

America's Stake in the Future

The changes affecting financial flows, trade, and the availability of information are forcing Americans to think more about our dependence on the global economy. We have in fact begun to exploit this new era. We lead in information technology, telecommunications and transportation systems. Our powerful economy is gaining even more strength as we learn to treat the world as our marketplace.

Yet, our government must continue to invest to protect our position into the future. For fifty years we invested to produce today's markets, yet today we are not only failing to invest, we are irresponsibly undermining an international system that serves our interests.

What we are doing to the United Nations system is unconscionable. At a time when the United Nations is

bending under the weight of human crises, most emanating from the developing world, we are sapping it of its vitality by refusing to pay our bills. Then we turn around and criticize it for failing to do its job.

Yet another compromise has been reached in the Senate to pay our arrearages. We will pay most of what we owe but only if the United Nations agrees to lower the U.S. assessment.

The art of compromise is a noble one. It makes democracy work. This time, however, the proposal is to compromise away a solemn treaty obligation. We will pay what we rightfully owe only if the United Nations accepts our condition--that we pay less in the future. This is wrong.

Would we teach our children to treat their friends that way? No. We teach them that bullies are cowards.

This is a shameful approach designed to appease people whose real goal is to kill the United Nations. It should be rejected by honorable people to preserve our reputation as an honorable nation.

The United Nations is a vitally important ally in the battle against inequality. Its voluntary agencies do work the bilateral agencies cannot do. Yes, reform is needed, but reform never succeeds when it is demanded at the point of a gun.

Market World or Fortress World?

It is time to end the hypocrisy. Globalization is thus far leaving out about two-thirds of the world. Either we should invest real money in the global model we are promoting or we should begin to erect the barriers to keep out these poor countries when their internal problems boil over. The choice was posed well in Alan Hammond's book, *Which World*. If we do not have the political will to create an expanded marketplace and a transformed world, we are deciding by default to create a "Fortress World."

The United States, with its military budget of \$275 billion and its foreign assistance budget of \$12 billion, seems to have made a choice. But have we done so consciously? Or, are we just victims of inertia? Our defense budget won the Cold War, it is said, so it must be right for this new era of globalization. I don't think so.

Despite our prosperity today, we are in a negative spiral. We are already fast approaching a world where 10 percent of the people control 90 percent of the wealth. We hear rhetoric about a more equitable world where America's vision of a democratic, market-based globe can be realized, but it is not matched by resource allocations. Our own political system and our press seem to miss this credibility gap, but the developing world does not.

The dangers created by this poverty gap are not only the products of disillusionment--war, terrorism, and the like--they also include losing the battle against climate change and disease. Environmental and health threats emanate from the conditions of poverty. This is not just an investment we make to uphold our values, it is an investment we should make to protect our people.

Forgive me for going on for so long, but I did not want to leave without warning you. It is time now to end my government career as a voice in the wilderness and to begin my private life as a voice in the wilderness.

It has been an honor to direct an Agency that continues to be held in high regard around the world. Whenever I have been in need of a morale boost over the past six years, I have gone to the field where the goods are being delivered. There, I not only see the energy and dedication of AID's people, I see and feel the ingenuity and the gratitude of our host-country partners. This never fails to make the struggles here in Washington seem worthwhile.

I want to thank the development community--the people in this room, organizations around the country and the officials and people from other nations with whom I had the privilege to work. I have felt your commitment and your support in times of crisis. We know that the poor of the world appreciate the lifeline we represent. We also know, as Martin Luther King, Jr. said, that "Whenever you are engaged in work that serves humanity and is for the building of humanity, it has dignity, it has worth."

I do not regret a day of my service here in Washington. It had dignity. It had worth. Now I will return to Massachusetts to continue work that I hope will also serve a greater good. Thank you for your friendship

and support.

J. Brian Atwood has been Administrator of USAID since 1993. Previously, he served on the staff of former Sen. Thomas Eagleton (D-Mo), as assistant secretary of state for congressional relations in the Carter Administration, and as executive director of the Democratic Senatorial Campaign Committee under former Sen. Lloyd Bentsen (D-Texas). Other positions he has held include president of the National Democratic Institute for International Affairs and as dean of professional studies and academic affairs at the Foreign Service Institute.